

## Inquiries/Responses to RFP 07-06

- Question 1. Are you looking for a shop that already has a Manager of Managers set up, or are you looking for individual Emerging Managers.
- **Manager(s) of Managers**
- Question 2. We define emerging managers as managers with less than \$500 million for small cap managers and less than \$2 billion for large cap managers. What is your definition of an emerging manager please?
- **PERF's stated mandate is for managers with AUM less than \$2B.**
- Question 3. Is there a minimum value of assets that needs to be in a manager's portfolio for them to be included in your portfolio?
- **No**
- Question 4. What is the definition of Emerging Managers? Is it companies with less than 1 billion in assets or less than 100 million in a specific product? I understand that they could be minority owned, or owned by women.
- **The Indiana Public Employees' Retirement Fund ("PERF") is soliciting proposals from all qualified firms who wish to be considered as a portfolio manager to manage a \$100M mandate in a fund of funds structure. PERF is seeking to invest in top-tier emerging managers through the utilization of a manager of managers (MoM). The primary objective is to achieve above benchmark rates of return through a diversified portfolio of public investments in emerging managers. The secondary objective is to invest a portion of the fund with emerging managers located in Indiana, minority managers, and/or women-owned managers without negatively impacting the primary objective. PERF seeks to do so through a strategic relationship with a MoM. Therefore, the Indiana Public Employees' Retirement Fund ("PERF") is soliciting proposals from all vendors who wish to be considered as a vendor to provide discretionary management of emerging managers (defined to be managers with total assets under management under \$2B) in a separate account through a fund of funds structure. Specifically, PERF seeks to identify manager of managers that specialize in the sourcing, evaluating, selecting, monitoring, and developing of emerging managers.**
- Question 5. Would "sub-managers" be considered "sub-contractors?"
- **No.**
- Question 6. Does this require pre-identifying the manager that will be used in the portfolio?
- **No**
- Question 7. RFP page 40; Question 7 - Questionnaire; We are required to submit a list of "investment emerging managers" currently under contract with [our firm]. As the names of our sub-advisors (investment emerging managers) are typically deemed confidential, may we please have an exemption from this requirement at this point in time?
- **Yes**

- Question 8. Are the sub-managers the Manager-of-Manager will be appointing technically “subcontractors” for the purposes of this assignment?
- No.
- Question 9. The requirement to identify all subcontractors seems at odds with the questionnaire which indicates that it is not necessary to list the actual names of the sub-managers.
- As clarified in question 8 above, the sub-managers do not qualify as “subcontractors” for purposes of this assignment.
- Question 10. 4.3.4 Subcontractors – Are the sub-managers used in constructing a manager of managers portfolio legally-designated as “Sub-Contractors” for the purposes of this relationship?
- No
- Question 11. RFP page 17; Question 3 - Contract for Service - Representations, Warranties, and Covenants of the Investment Manager “.....insurance coverage in the amounts required by the Board in the Fund’s Investment Policy.” What are the current amounts of insurance coverage required please?
- Below are the sections in the [IPS](#) that outline coverage:
    - Fiduciary Liability Insurance. Each Investment Manager will obtain fiduciary coverage, with a minimum of \$5 Million coverage or \$25 Million in pooled coverage, or in such higher amount as required by the Board from time to time. The fiduciary coverage must cover a loss resulting from a breach of fiduciary duty in providing or failing to provide professional services to the Fund. In some cases, fiduciary coverage may be established through errors and omissions (E&O) or professional liability policies (including, for some Investment Managers, a "blanket bond" if the bond also provides coverage for fiduciary liability), as long as those policies are specifically written to cover fiduciary breaches themselves or include a specific fiduciary liability endorsement or rider.
    - Each Investment Manager shall annually provide written evidence of such coverage. The Executive Director may approve alternative fiduciary liability insurance arrangements, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
    - Errors and Omissions Coverage. Each Investment Manager will obtain coverage for errors and omissions to cover a loss due to a mistaken or negligent act or omission (without any exclusions for benefit plans that would exclude services the Investment Manager provides for PERF from coverage), with minimum of \$5 Million coverage, or in such higher amount as required by the Board from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage.
    - The Executive Director may approve alternative errors and omissions coverage, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.
    - Fidelity Bond. Each Investment Manager will obtain a fidelity bond, which covers loss from acts of dishonesty, theft, or negligence, with a minimum of \$3 Million coverage, or in such higher amount as required by the Board

from time to time. Each Investment Manager shall annually be required to provide written evidence of such coverage.

The Executive Director may approve alternatives to a fidelity bond, if in the judgment of the Executive Director, Chief Investment Officer, and Fund legal counsel, the alternative insurance arrangements provide substantially the same protection to the Fund.

- Question 12. The Statement of Investment Policy is referred to throughout the Investment Management Contract and is noted on the Mandatory Minimum Qualifications, including referring to the level of E&O insurance and other coverage that is required. The Policy was not attached to the RFP – could you please communicate the level of E&O and other coverages required?
- See answer to Question #11 above.
- Question 13. Please provide a model portfolio based both on the “best of class” concept AND Russell 3000 benchmark, which illustrates for each manager:
- a. Style classification;
  - b. Assets under management;
  - c. Portfolio weighting; and
  - d. Tracking error.
- Also please provide the tracking error for the total portfolio. The tracking error should be calculated over a 3 and 5 year time period, if applicable. For the purpose of this question, it is not necessary to list the actual name of the manager in the sample portfolio; however, the data provided must reflect actual managers, not hypothetical. The portfolio should be based on a \$100 million allocation. Would you like a "best in class" portfolio that combines equity and fixed and is open to domestic, global and non-U.S. securities?
- Please provide only domestic equity and domestic fixed income.
- Question 14. Should our model portfolios be both \$100 million in size- a \$100 million "best of class" and a \$100 million Russell 3000 benchmark portfolio? Or, would you prefer two \$50 million model portfolios?
- Please provide \$100M portfolio for Russell 3000 and \$100M for “best of class”.
- Question 15. Section VII, Question 1: In addition to the "best of class" and the Russell 3000 portfolios, can we submit a third portfolio versus another specific benchmark (i.e. the Russell 2000)? If only two portfolios can be submitted, can the "best of class" portfolio be versus a specific benchmark (i.e. the Russell 2000)?
- It is PERF’s intention to structure the manager(s) of managers mandate to be an inclusive search of public equity and fixed income managers. As such, the manager(s) of managers is expected to show sourcing, selection, and portfolio management expertise in these broader areas. If a firm has a specific expertise (Russell 2000), a proposal demonstrating that expertise is certainly welcomed, as long as they can primarily show their proficiency in the broader areas.
- Question 16. Will PERF consider hiring two emerging manager of managers (that would manage \$50 million programs each) or is it set on hiring one (that will manage a \$100 million portfolio?)

- PERF has yet to determine how many managers of managers it will engage to complete the allocation.

Question 17. If a respondent makes a commitment to register with the Secretary of the State “prior to contract negotiations”, is registration required for the submission of the RFP?

- No, the requirement is that the vendor be registered to do business with the State of Indiana prior to contract award. We expect a firm to begin the registration process if selected as a finalist in order to have the requirement met before contract negotiations are completed and a contract signed.

Question 18. Is it imperative that we register to do business in Indiana? We are New York firm though we do similar deals throughout the country without having to register our practice in other states.

- See answer to Question 17 above.

Question 19. According to the Exhibit D (pg. 35), one of the mandatory minimum qualifications is audited financial statements by an independent accounting firm. To date we have not audited our financials however one of our most recent clients has required us to do that when we were hired. As a result we will be having audited financials starting this year. We wanted to inquire if this is sufficient to satisfy your minimum requirement.

- While [your firm] does not currently meet all of the minimum qualifications set out in the RFP (audited financial statements), PERF does not want to discourage any firm that feels it is qualified (or will be qualified) from responding to the RFP. That being said, each firm that responds will be evaluated based on the selection criteria delineated in the RFP and how it compares to the other respondents.

Question 20. Exhibit D Mandatory Minimum Qualifications – Item 1 states “Have annual financial statements audited by an independent accounting firm”. Our firm only has 2005 audited financials. We are in the process of having our 2006 financials audited. Can our firm submit audited financials for 2006 at a later time?

- Yes

Question 21. Is it absolutely necessary that we provide detailed income statements and balance sheets for the last two fiscal years?

- See answer to question 19 above.

Question 22. We are interested in creating a proposal for the Indiana PERF, however in looking through the minimum requirements listed in the RPF we fail to meet only one criterion. Unfortunately, we do not currently have annual financial statements which have been audited by an independent accounting firm. [Our firm] is a registered investment advisor which manages financial institutions, the no-load mutual fund which it manages, in one of entities is audited. Aside from this first requirement we meet all others, I’m curious to know if there is any reprieve for a firm in our position?

- See response to Question 19 above.

Question 23. What are the investment manager qualifications?

- Unless otherwise specified, as of the Response Due Date, Respondents must meet the following minimum requirement in order to be considered for the contract:
  1. Have annual financial statements audited by an independent accounting firm.
  2. Maintain the status of a registered investment advisor under the Investment Advisors Act of 1940, regardless of whether any exemption from registration applies.
  3. Offer a separate account, and for a separate account act as a fiduciary within the meaning of applicable Indiana law and ERISA.
  4. Offer customized strategies to institutional clients.
  5. Agree to comply with Indiana law as it applies to investments made by PERF.
  6. Meet all applicable requirements as delineated by PERF's investment policy statement.

Question 24. 4.1 General – “A complete proposal will include...a transmittal letter, and a “business proposal” is Indiana PERF looking for a separate document in addition to the Exhibit E questionnaire?

- Yes. We are looking for a proposal document which outlines the responses to all of the requests for information contained within the RFP document.

Question 25. Have any Indiana-based emerging managers contacted Indiana PERF?

- Yes

Question 26. If so, would PERF be able to share their names?

- Yes, we would certainly share contact information we have from emerging managers in Indiana with the selected manager(s) of managers once the MoM contract(s) have been executed.

Question 27. Our firm has partnered with an Emerging Money Manager in the region specifically to provide money management and diversity requirements. My question is there another RFI/RFP for Emerging Managers or should we fill out the current RFP looking for Manager of Managers?

- The process will entail our selection of a Manager(s) of Managers (MoM) first and then we will work with the MoM(s) in the sourcing and selecting of the underlying managers within the program. We will keep your name in our respondent database to notify of the process of getting your firm's information to the MoM(s) once we have made that selection.

Question 28. Can an individual emerging manager submit a proposal? Or is this strictly for manager-of-managers programs?

- Unfortunately, this is strictly a manager of managers program. Thank you for your interest. See response to Question 27 above.

Question 29. In quickly reviewing this RFP document, it seems to be aimed at Managers of Manager (MoM) firms who have a stable of emerging managers (or funds run by emerging managers). Unfortunately, I am not a MoM and am not affiliated

with such a firm. I would like the opportunity to manage Indiana PERF funds, however. Is there any possibility you could connect me to a few of the firms that are responding? I'd like to investigate how I can qualify with them as one of the money managers whose services they utilize.

- Our procurement files are not available for review by the public until a contract is awarded, however, once a contract(s) is awarded, that information can be forwarded to you. See also the response to Question 27 above.

Question 30. We do not fit the criteria to be a Manager of Managers, but we are interested in knowing how we can be on the emerging manager screen for any of the MoM's that are selected.

- By simply indicating that to us that you wish to be included in future RFP opportunities, you have already taken the necessary steps to be notified in the future of our investment opportunities for emerging managers. Thank you for your interest. See also the response to Question 27 above.

Question 31. Will the Indiana PERF direct the selected Manager of Managers which emerging managers to look at or will that be the responsibility of the selected MoM?

- It is our anticipation to rely on the Manager(s) of Managers (MoM's) expertise in sourcing the very best talent. PERF staff will encourage emerging managers to complete the necessary information in the medium and format that the selected MoM has established.

Question 32. Are the most up-to-date PERF investment guidelines the ones on the PERF website entitled "Last Restated February 9, 2007"?

- Yes

Question 33. I am wondering if you are looking solely for a manager of managers for the public market only or whether you are interested in emerging fund managers who invest in both public and private equity?

- This mandate is for a manager of managers to bolster our allocation to emerging managers solely in the long-only domestic public equity and fixed income space.

Question 34. Would a minority fund of funds manager with no subadvisors (where the investment company that invests in the HFs is minority owned and operated) be considered for this RFP.

- This mandate is for a manager(s) of managers to bolster our allocation to emerging managers solely in the long-only domestic public equity and fixed income space. This excludes hedge fund of funds.

Question 35. I wanted to know if by emerging managers you meant hedge fund managers or long only managers.

- This mandate is for a manager(s) of managers to bolster our allocation to emerging managers solely in the long-only domestic public equity and fixed income space. This excludes hedge fund of funds.

Question 36. Would the mandate be suitable for an alternative investment-'only' firm, i.e. us as an emerging fund of hedge funds specialist (but with exposure across different asset classes such as public equities, international equities, public fixed

income etc.)? I read articles about the intention to bring the alternative exposure up to 15% at Indiana PERF and this could be a suitable way.

- This mandate is for a manager(s) of managers to bolster our allocation to emerging managers solely in the long-only domestic public equity and fixed income space. This excludes hedge fund of funds.

Question 37. Is the format of emerging manager open to emerging *hedge fund managers*? The key word here is *hedge* funds, as we are a fund of funds managers that deals with hedge funds.

- This RFP that is for public mandates only, not for hedge funds, private equity, or other alternatives asset classes.

Question 38. Are you looking for a manager-of-managers that invests in emerging managers across all asset classes (equities/fixed income/alternatives) or are you looking for a manager-of-managers that invests in alternatives only?

- This RFP that is for public mandates only, not for hedge funds, private equity, or other alternatives asset classes.

Question 39. I work with [firm name], a hedge fund of funds firm, and we have reviewed the Indiana PERF RFP (Number 07-06) but it is unclear whether we are eligible to submit the proposal. Is it for fund of funds managers or for long only? Further clarification would be greatly appreciated.

- This RFP is for public mandates only, not for hedge funds, private equity, or other alternatives asset classes.

Question 40. [Our firm] is a manager of hedge fund of funds, with a focus on emerging hedge fund managers. Does Indiana PERF's RFP encompass emerging hedge fund managers? Thank you.

- This RFP is for public mandates only, not for hedge funds, private equity, or other alternatives asset classes.

Question 41. Will emerging hedge fund managers qualify to be in the Fund of Funds portfolio?

- This RFP is for public mandates only, not for hedge funds, private equity, or other alternatives asset classes.

Question 42. What do you mean that we need to "Agree to comply with Indiana law as it applies to investments made by PERF."

- The manager(s) of managers is required to follow all Indiana law. As an extension of Indiana law, Indiana PERF is to adhere to the policies as delineated by our [investment policy statement](#). The IPS will give valuable insights into what we expect from all investment managers.

Question 43. Are you looking to deploy capital to emerging markets, particularly Russia/CIS? Our returns from this part of the world are quite strong at 38% growth on 65% IRR for 2006.

- PERF is not seeking an emerging markets mandate at this time. The RFP that we have released is a search for a manager of managers for emerging managers. However, we will keep your information should we look to a dedicated emerging markets mandate in the future.